

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6345

BILL NUMBER: SB 276

DATE PREPARED: Jan 25, 2002

BILL AMENDED: Jan 24, 2002

SUBJECT: Annual Actuarial Study of ICHIA.

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) This bill requires the Indiana Comprehensive Health Insurance Association (ICHIA) to have completed an annual actuarial study of ICHIA and submit a copy to the Legislative Council. It also requires ICHIA to annually adjust premiums based on the actuarial study. (The introduced version of this bill was prepared by the Health Finance Commission.)

Effective Date: July 1, 2002.

Explanation of State Expenditures: *Summary:* This bill requires ICHIA to complete an annual actuarial study of the insurance program and to annually adjust premiums based on that study. Although there would be some additional cost imposed on ICHIA for conducting the actuarial study, annual adjustment of the premiums of ICHIA participants could reduce annual program losses from what they would otherwise be. This may potentially result in some amount of reduced revenue expenditures from the state General Fund and lower assessments on member companies.

Background: ICHIA is the high-risk insurance program offered by the state. ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA, by assessments to member companies (insurers, health maintenance organizations, and others that provide health insurance or health care coverage in Indiana), and the state General Fund. To be eligible, Indiana residents must show evidence of: (1) denied insurance coverage or an exclusionary rider; (2) one or more of the "presumptive" conditions such as AIDS, Cystic Fibrosis, or Diabetes; (3) insurance coverage under a group, government, or church plan making the applicant eligible under the federal Health Insurance Portability and Accountability Act (HIPAA); or (4) exhausted continuation coverage (e.g., COBRA). Premium rates must be less than or equal to 150% of the average premium charged by the five largest individual market carriers.

The net losses of ICHIA (the excess of expenses over premium and other revenue) is made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Gross Income

Taxes, Adjusted Gross Income Taxes, Supplemental Corporate Net Income Taxes, or any combination of these taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. The amount of assessments that are recouped by insurance carriers through tax credits or premium increases is not known at this time.

The ICHIA Board at its February 2001 meeting approved a 27% premium rate increase for enrollees. This is the first rate increase since 1996. More frequent premium increases may result in a greater relative contribution by premium payors toward program costs. Although future annual premium increases that may result from an annual actuarial study are not known, estimated changes in relative contribution toward program costs by the various payors (the state, ICHIA participants, and ICHIA member companies) are provided in the following table. For example, a 5% increase in the aggregate premium contribution by the insureds is estimated to result in a \$700,000 decrease in contribution by member insurance companies, a \$1.3 M decrease in the contribution from the state, and a \$2 M increase in premiums paid by the insureds (about \$250 per enrollee per year based on 7,800 enrollees).

	Change in the Amount of Program Costs Paid By: **		
% Increase in Aggregate Premium Contribution	State	Participant Premiums	ICHIA Member Companies
5%	(\$1.3 M)	\$2 M	(\$0.7 M)
10%	(\$2.6 M)	\$3.9 M	(\$1.3 M)
15%	(\$4 M)	\$5.9 M	(\$1.9 M)
** The cost shifts include only the changes associated with increasing the dollar contribution by participants and do not reflect likely decreases in participation (and resulting lower aggregate program costs) due to the higher premiums.			

The following assumptions were used to develop a base scenario with which to compare the impact of increasing participant premiums:

- (a) An enrollment level of 7,795 (based on the September 2001 enrollment).
- (b) Average premium paid by participants of \$412 per month, or \$4,944 per year (July 2001).
- (c) Program cost per participant of \$10,038 (2000).
- (d) Program cost inflation of 4.5% per year (CPI-U for Medical Care).
- (e) No enrollment growth through 2003.
- (f) No premium growth through 2003.
- (g) 67.5% of tax credits can be utilized by members (based on a survey conducted by Outsourced Administrative Systems, administrator of ICHIA). [Note: The fiscal estimates provided are very sensitive to this assumption. However, no other estimates for the ability to utilize these tax credits has been found at this time.]

The base scenario from these assumptions would result in total program costs of \$91 M in FY 2003; total premiums paid by participants of \$39 M; and an estimated net program loss of \$52 M to be made up by member assessments. Of this amount, an estimated 67.5% of the total assessments could be recouped in the

form of tax credits. With these assumptions, the state would ultimately contribute about \$35 M, or 38% of the total program cost, the Association members would contribute about \$17 M, or 19% of total costs, and program insureds would contribute about \$39 M through premium payments, or 43% of total program costs. The cost estimates in the table, above, are based on a comparison to this base scenario. All cost impacts in the table are estimates for FY 2003 only. However, these costs represent ongoing costs that would occur annually, and the costs would change in future years with inflation, enrollment changes, etc.

Explanation of State Revenues: See Explanation of State Expenditures, above, for the impact on state tax revenues from changes in the ICHIA program funding.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: ICHIA.

Local Agencies Affected:

Information Sources: